



Department of the Navy Auditability: The Integral Role of IUID

DON-Wide IUID Enterprise Training Symposium 3

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FMO

6 April 2010



DEPARTMENT OF THE NAVY
Financial Improvement Program

Know your business. Control your future.
Test for Success.

Agenda

- What is Auditability – Bottom Line Up Front
- Leadership Direction
- DON Financial Improvement Program
- Audit Readiness and IUID
- Challenges to IUID Implementation
- Wrap-Up

What is Auditability - Bottom Line Up Front

Essentially, auditability is:

- Well controlled business processes to satisfy:
 - Generally Accepted Accounting Principles (GAAP)
 - Compliance with Federal Financial Management Regulations (FMR)
 - Ability to prove existence and effectiveness of these controls (i.e. audit trails)
- Management Assurance (Internal)
- 3rd Party Assessment (External)

Auditability is presented through 5 Management Assertions:

1. Completeness: Are all assets accounted for?
2. Rights and Obligations: Do we have ownership and control? (i.e. title)
3. Existence: Do all assets in our records actually exist?
4. Valuation: Have we completely and accurately accumulated the costs of assets?
5. Presentation and Disclosure: Have we presented the asset appropriately in our financial statements?



Leadership Direction

Congress:

- National Defense Authorization Act (NDAA) for FY2010:
 - Mandated a Financial Improvement and Audit Readiness (FIAR) Plan, and requires semi-annual report of FIAR Plan progress to congressional defense committees
 - DoD validated as ready for audit by end of FY2017

H. R. 2647

NDAA 2010:

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- 1 (1) IN GENERAL.—The Chief Management Officer
- 2 of the Department of Defense shall, in consulta-
- 3 tion with the Under Secretary of Defense (Com-
- 4 controller), develop and maintain a plan to be known as
- 5 the “Financial Improvement and Audit Readiness
- 6 Plan”.
- 7 (2) ELEMENTS.—The plan required by para-
- 8 graph (1) shall—
- 9 (A) describe specific actions to be taken
- 10 and the costs associated with—
- 11 (i) correcting the financial manage-
- 12 ment deficiencies that impair the ability of

One Hundred Eleventh Congress of the United States of America

AT THE FIRST SESSION

Began and held at the City of Washington on Tuesday,
the sixth day of January, two thousand and nine

An Act

To authorize appropriations for fiscal year 2010 for military activities of the Department of Defense, for military construction, and for defense activities of the Department of Energy, to prescribe military personnel strengths for such fiscal year, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the “National Defense Authorization Act for Fiscal Year 2010”.

SEC. 2. ORGANIZATION OF ACT INTO DIVISIONS; TABLE OF CONTENTS.

(a) DIVISIONS.—This Act is organized into five divisions as follows:

- (1) Division A—Department of Defense Authorizations.
- (2) Division B—Military Construction Authorizations.
- (3) Division C—Department of Energy National Security Authorizations and Other Authorizations.
- (4) Division D—Funding tables.
- (5) Division E—Matthew Shepard and James Byrd, Jr. Hate Crimes Prevention Act.

(b) TABLE OF CONTENTS.—The table of contents for this Act is as follows:

- Sec. 1. Short title.
- Sec. 2. Organization of Act into divisions; table of contents.
- Sec. 3. Congressional defense committees.

DIVISION A—DEPARTMENT OF DEFENSE AUTHORIZATIONS


TITLE I—PROCUREMENT

Subtitle A—Authorization of Appropriations

- Sec. 101. Army.
- Sec. 102. Navy and Marine Corps.
- Sec. 103. Air Force.
- Sec. 104. Defense-wide activities.
- Sec. 105. National Guard and Reserve equipment.
- Sec. 106. Mine Resistant Ambush Protected Vehicle Fund.
- Sec. 107. Relation to funding table.

Subtitle B—Army Programs

July 09



Strategic Management Plan

Department of Defense

Strategic Management Plan July 2009

Business Priority 5: Strengthen DoD Financial Management

To make informed decisions and ensure that resources are optimally aligned to priority tasks, the Department's leaders need access to timely, relevant, and reliable financial information for fact-based, actionable management decisions. Key initiatives address important management challenges related to improving the auditability of DoD financial activities.

Outcome	Task	Resource	Key Indicators
Acquire needed resources and make the best use of them (USDIC)	Speed American Recovery and Reinvestment Act (ARRA) funds quickly and effectively	Percent obligation rates vs. project ground breaking	<ul style="list-style-type: none"> Complete ARRA transparency through full automated reporting of high visibility costs Obligate to annual spending targets
Maintain an effective budget execution function	Maintain monthly planned obligations	Achieve monthly planned obligations	<ul style="list-style-type: none"> Obtain transparency through full automated reporting of obligation rates and spending amounts
Pay people and vendors on time and accurately (USDIC)	Manage cash flow	Manage cash flow	<ul style="list-style-type: none"> Reduce DOD charge control board process Work to enhance integrated personnel and pay systems Address pay issues unique to the Reserve component Conduct full national review of pay integration Promote the use of eCommerce
Eliminate good knowledge of public funds (USDIC)	Maximize and defend ARRA funds	Reduce actual obligations	<ul style="list-style-type: none"> Launch new financial management and audit readiness (FMAR) strategy Implement effective financial systems
Improve Real Property Management (USDIC/AL)	Make visible real property assets and the value of them	Percent of real property management systems compliant with the DoD enterprise-wide standard label Real Property Inventory Requirements (RPIR)	<ul style="list-style-type: none"> Develop a standard DoD real property inventory system (label process) and tool for use across all DoD Track actual expenditures at the asset level for real property and construction support

SECDEF:

• The DoD Strategic Management Plan (SMP) released in July 2009 outlines 5 Business Priorities, one of these being: “Strengthen DoD Financial Management”

Leadership Direction (cont.)

USD(Comptroller):

- Statement of Budgetary Resources (SBR) / Fund Balance with Treasury (FBWT);
- Existence & Completeness of property including Inventory/Operating Materiel & Supplies (OM&S) and General Property, Plant, and Equipment (PP&E).

USD(AT&L):

- Endorsement and support of DON Existence & Completeness efforts; ability to reach stated target of FY2012

Vice Chief of Naval Operations:

- Sent out “Personal For” memo to all Echelon 2 Commanders asking for their support in ensuring the success of the FIP
- “The responsibility of command includes the responsibility over the resources allocated to you. You are expected to support and ensure the success of improved business and financial management practices, within and across command lines.”

Commandant of the Marine Corps:

- Directed the Marine Corps to support Financial Improvement and Audit Readiness efforts

SECNAV is required to certify and report on status of DON-wide internal controls as they are manifested in the Annual Financial Reports

DON Financial Improvement Program (FIP)



The Department of the Navy Financial Improvement Program (DON FIP) is a multi-year Department-wide effort to strengthen Navy-Marine Corps business processes and systems, transforming them so that they better serve worldwide operations. The program's goal is to produce financial information with greater accuracy, reliability, and accessibility. With this improved information, DON's senior leaders will be able to allocate the Department's resources in a better informed, more precise way.

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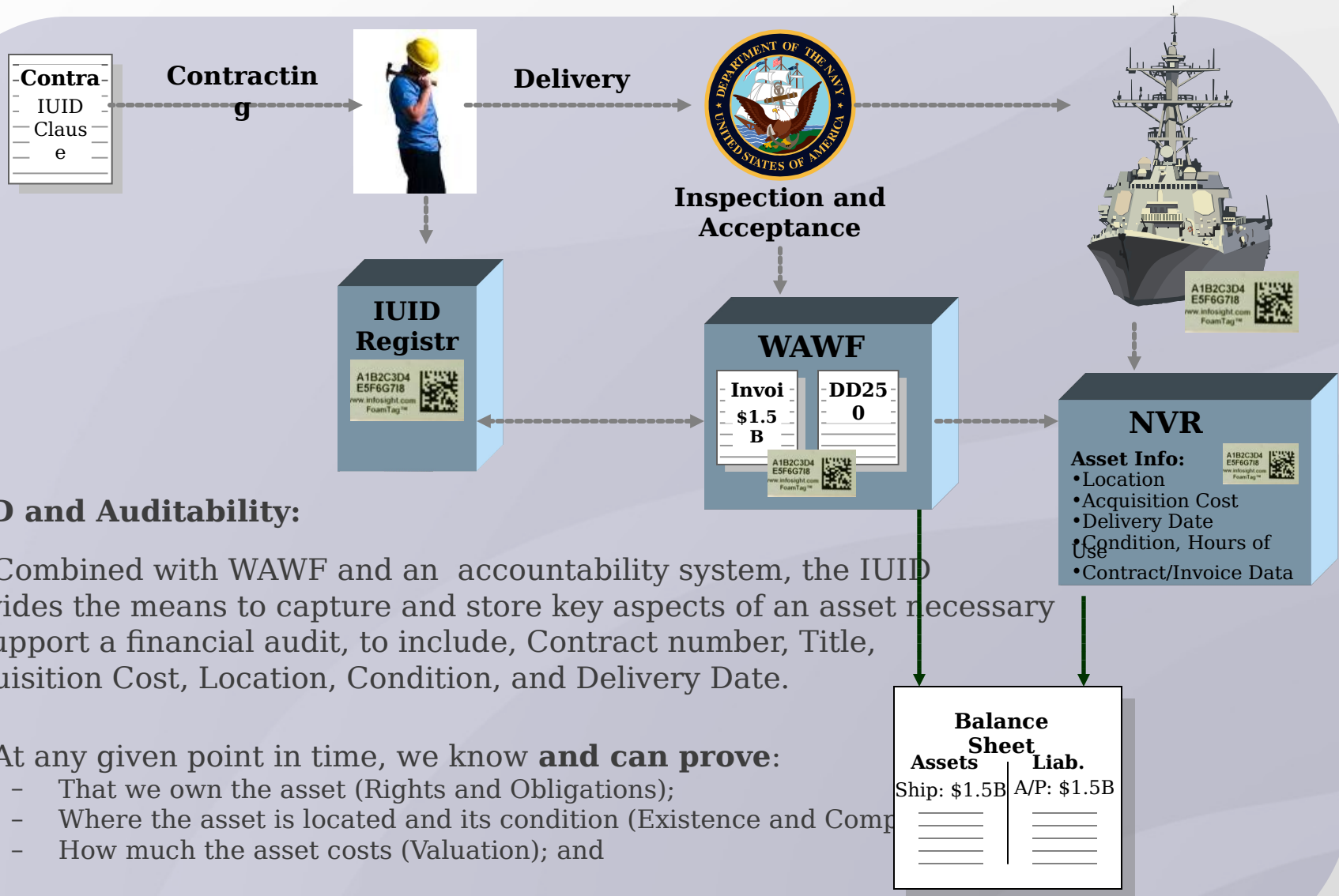


The DON FIP:

- The FIP is a DON program to deliver financial improvement and audit readiness objectives
- The approach will assist you in development of an audit readiness infrastructure based on effective internal controls
- The outcome will be
 - More accurate, timely, and reliable information for decision making
 - More confidence of DON's effective stewardship of taxpayer dollars

We consider implementing IUID a critical element to FIP success

IUID and Auditability



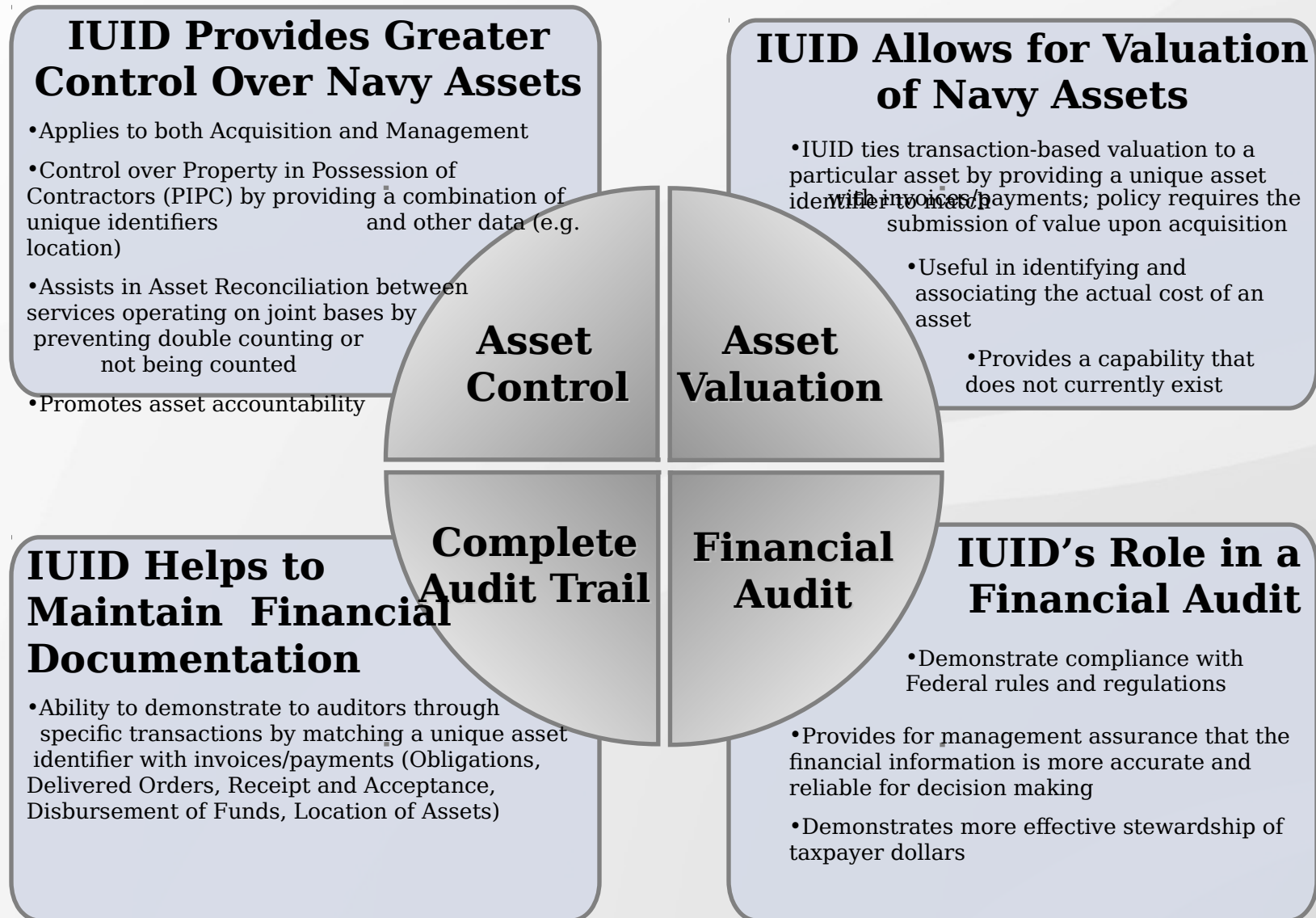
IUID and Auditability:

- Combined with WAWF and an accountability system, the IUID provides the means to capture and store key aspects of an asset necessary to support a financial audit, to include, Contract number, Title, Acquisition Cost, Location, Condition, and Delivery Date.

- At any given point in time, we know **and can prove**:
 - That we own the asset (Rights and Obligations);
 - Where the asset is located and its condition (Existence and Condition);
 - How much the asset costs (Valuation); and

Presented on our financial statements as required by Financial Management Regulations (Presentation and Disclosure)

IUID and Auditability



Challenges to IUID Implementation

The FM community acknowledges IUID challenges and recognizes that implementation will not happen over night, it will take time and effort

IUID Challenges

Prioritizing the IUID effort; competing needs and costs of compliance

Conversion challenges for legacy system environments (e.g. there is no current plan to interface the IUID Registry with Navy ERP)

IUID clause not being included in all contracts, which affects data flow through Wide Area Work Flow (WAWF) and impacts efforts to improve timely and accurate receipt

Wrap-Up

- As a user of data outputs of the processes that IUID supports and improves, IUID is an integral component of our audit readiness strategy
- FM recognizes IUID implementation challenges

Achieving audit readiness requires an integrated effort between Acquisition, Logistics, and Financial communities



Back-up



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The DON FIP Plan Moving Forward

Represents SBR Priority Areas

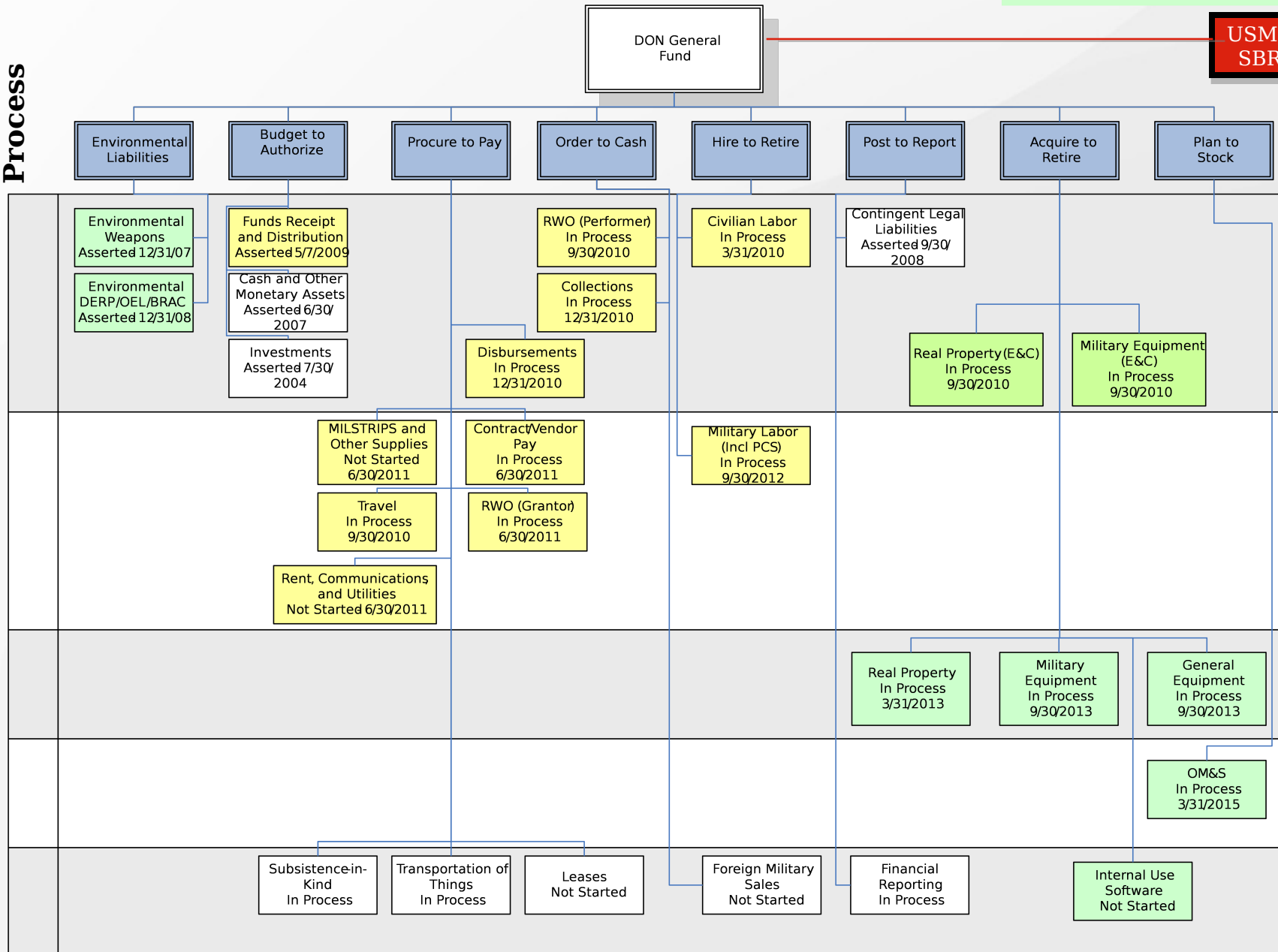
Represents E&C Accelerated Areas

Property related areas covered under Procure to Pay for SBR

**USMC
SBR**

**BTA
E2E
Process**

Business Process Segments



SBR and Existence & Completeness

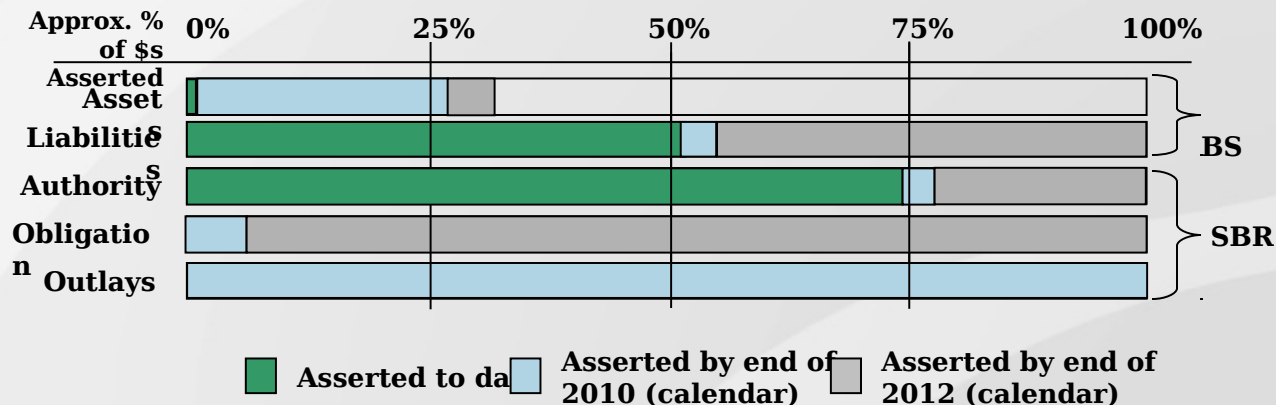
Update

DON SBR and E&C 36 Month Audit Readiness Plan

Component	Statement Section	Assessable Unit	1Q FY10	2Q FY10	3Q FY10	4Q FY10	1Q FY11	2Q FY11	3Q FY11	4Q FY11	1Q FY12	2Q FY12	3Q FY12	4Q FY12
DON	Budgetary Resources													
		Appropriations Received												
		Reimbursable Authority- Earned												
	Status of Budgetary Resources													
		Contracts												
		Military Pay												
		Reimbursable Work Order (Grantor)												
		Civilian Pay												
		OM&S- MILSTRIP Orders												
		Transportation of People												
	Net Outlays (incl. FBWT)													
	SBR Compilation													
	Mission Critical Assets (Existence and Completeness)													
		Military Equipment- Aircraft												
		Military Equipment- Ships												
		Military Equipment- ICBMs												
		Military Equipment- Satellites												

Assertion
 Validation by OSD/DoDIO
 Sustainment

Delivering on DON FIP FY10-11 goals will provide management assurance over a significant % of DON's financial information



E&C Assessable Units “On the Table”

Existence & Completeness

• **Existence:** Assets (Military and General Equipment, Real Property, Inventory, and OM&S) recorded in the official property or inventory systems actually exist (have not been sold, transferred, destroyed, or otherwise disposed).

• **Completeness:** assets owned are recorded in the official property or inventory systems (the official records are *complete*).

Assessable Unit	FY 08 Dollar Value	Proposed Assertion Date	Rationale for “Quick Win”
Ships and Submarines/NVR Assets	\$97B	9/30/10	<ul style="list-style-type: none">• Ships/Subs are tracked in one system – NVR.• Relatively low volume, high dollar value assets (approximately 400 exist).• Mission requirements dictate robust E&C controls.• Detective controls may support sustainment.
Aircraft (Navy and USMC)/AIRRS Assets	\$49B	9/30/10	<ul style="list-style-type: none">• Aircraft are tracked in one system – AIRRS.• Relatively low volume, high dollar value assets (approximately 2,400 exist).• Mission requirements dictate robust E&C controls.• Detective controls may support sustainment.
Intercontinental Ballistic Missiles	\$6B	9/30/10	<ul style="list-style-type: none">• Mission requirements dictate robust E&C controls.• Detective controls may support sustainment.
Satellites	\$132M	9/30/10	<ul style="list-style-type: none">• Mission requirements dictate robust E&C controls.• Detective controls may support sustainment.